

MANAGEMENT LETTER COMMENTS

I. Lack of Operating Lease Disclosures

Observation

DCPS did not properly identify and disclose the future lease commitments of operating lease agreements in the amount of \$4 million. The Office of Contracts and Acquisitions did not properly notify the Office of the Chief Financial Officer (OCFO) of executed lease agreements. The leases commenced in fiscal year 2000 but were not disclosed in the financial statements. Generally accepted accounting principles for governmental entities require that future lease payments be disclosed for years 1-5 of the operating lease and the total payments for 5-year increments thereafter.

Recommendation

The DCPS should develop and implement control procedures to identify and properly disclose its commitments for all significant payments required under significant operating leases. Communications between the Office of Contracts and Acquisitions and OCFO should be clearly defined in the developed procedures, so that the accounting disclosures of commitments can be identified in a timely manner.

Agency Response

The Office of Contracts and Acquisitions now provides copies of all lease agreements to the OCFO.

II. Central Investment Fund

Observation

The DCPS has established a Central Investment Fund (CIF) to maintain fiscal integrity over donations and grants received from private sources. The DCPS does not follow the Accounting Guide and Policy Manual (Manual) that established the policies and procedures to maintain the internal control structure and safeguard the assets of the fund. Specifically, DCPS has deposited monies other than donations and grants from private sources, such as teacher certification fees, has disbursed amounts without proper authorization according to the requirements of the manual or the District's Procurement Laws and Regulations. The CIF individual accounts, which are dormant for more than five years, are not reviewed and consolidated as required by the Manual. Further, the CIF's transactions are not accounted for in the DCPS general ledger and DCPS did not perform timely reconciliation on the fund during the fiscal year or at year-end.

Recommendation

DCPS should implement a management review process of the CIF on a monthly or quarterly basis to insure compliance with the Manual and to insure timely reconciliation of the accounts and proper disposition of reconciling items. The CIF should be set up and placed under general ledger control.

Agency Response

The OCFO concurs with the finding and will take corrective action.

III. Resource Allocation

Observation

The DCPS did not properly review open purchase orders at year-end to adjust the reported balance of encumbrances. Invalid open purchase orders from fiscal years 1999 and 2000 amounting to \$1,413,640 still existed on the encumbrances reports at fiscal year end 2002 and therefore misstating the encumbrances at the end of the year.

Recommendation

DCPS should develop and implement procedures for canceling purchase orders and adjusting the related general ledger accounts once the goods and/or services are no deemed longer required or no longer has appropriated funds available.

Agency Response

Invalid prior years' open purchase orders have been deleted from the financial management system.

IV. Fixed Asset Management

Observation

While performing audit procedures over the processes that DCPS utilizes for monitoring and recording the acquisitions and disposals of fixed assets, we noted that DCPS had marked fixed assets for deletion for fiscal year 2002 in the subsidiary fixed asset system, but they had not been deleted from the general ledger.

Recommendation

Policies and procedures should be implemented to ensure that when assets are disposed of and marked for deletion in the subsidiary fixed assets records, that the assets are deleted from the general ledger in the same period.

Agency Response

The OCFO concurs and has taken corrective action.

V. Capital Improvement Projects

Observation

DCPS could not provide invoices for certain items selected for testing which related to capital improvement projects. These items were selected for the purpose of testing the classification and appropriateness of capital expenditures. DCPS is responsible for ensuring that documentation is available to provide evidence of expenditures supporting the financial statements.

Recommendation

DCPS should develop and implement effective controls over the filing and storage of original invoices and supporting documents. Further, procedures need to be developed for maintaining the files including tracking the document flow and archiving files to insure the files are complete and that the information contained in the files is accessible

Agency Response

The OCFO's Accounts Payable Manager position has been vacant for an extended period. A soon to be hired AP manager will take action to improve maintenance of vendor payment files. An AP manager borrowed from another District agency is currently assessing AP operations and will make recommendations for improvements.

VI. Special Education Direct Payments

Observation

Direct payment special education invoices were not approved by the Office of Special Education prior to payment by the finance department. The Office of Special Education and the Office of the Chief Financial Officer did not strictly adhere to the time guidelines stipulated by the Petties Automated Payment System (PAPS), which require all payments be made within thirty days of receipt. DCPS controls over these payments require that all special education invoices be reviewed by the Office of Special Education to determine student eligibility and invoice accuracy prior to payment.

Recommendation

DCPS should develop and implement an effective system of internal controls to ensure that all special education invoices are submitted to the Office of Special Education in sufficient time for review and approval and submission to OCFO for payment within the thirty-day requirement under PAPS.

Agency Response

The Office of Special Education has formalized payment procedures and the OCFO no longer processes special education invoices without proper authorization. A task force has been established to promote compliance with Petties requirements.

VII. Change of Fiscal Year

Observation

KPMG has discussed with DCPS Senior management that they should continue to consider feasibility of changing DCPS' fiscal year-end to June 30. The persuasive argument for the change in the fiscal year-end is that the current year-end of September 30 coincides with the start of the academic year, which increases the complexity of the year-end closing process and related audit. In addition, the September 30 year-end means that the annual closedown process and the DCPS' enrollment period occur at substantially the same time of year.

Recommendation

DCPS School Board members should consider the merits of a plan to change DCPS' year-end to June 30.

Agency Response

DCPS supports the change in the fiscal year. A recommendation was made, however the proposed change in fiscal year was not included in the FY 2004 budget that was submitted to the Congress for approval.

VIII. Implementation of New Human Resource and Financial Reporting Systems

Observation

DCPS' is in the process of implementing a new Peoplesoft financial management system for processing human resource, payroll, procurement, accounts payable, revenues and receivables, budget and general ledger activities. The anticipated completion date is October 1, 2003. The new systems are intended to bring greater functionality to the reporting environment than currently provided by the existing systems. DCPS must consider that the implementation is a systemic process and does not alleviate the requirement for concurrent establishment of policies and procedures over the security of the systems, appropriate authorization of the data input and reconciliation and management's review of data output.

Recommendation

KPMG suggests that DCPS management coordinate the design, implementation and documentation of appropriate policies and procedures with the implementation of Peoplesoft, that will establish an internal control structure that provides reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with general accepted accounting principles; includes maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets and that receipts and expenditures are being made in accordance with authorizations of management and in compliance with all applicable laws and regulations.

During the conversion from the existing systems to Peoplesoft, we recommend that integrity of the opening balances of data, such as; individual payroll data, salary and wage tax summaries, vendor files and general ledger balances are verified when migrated. Further, we recommend that parallel processing of transactions be performed to the maximum extent possible. Finally, since certain general ledger transaction will interface with the District's system, SOAR, reconciliation procedures should be designed and implemented to insure the integrity of the interface.

Agency Response

DCPS has been working with the Office of Financial Operations and Systems over the past year to establish strong internal controls and to ensure accurate financial reporting. PeopleSoft will not go live without sign-off from the Office of Financial Operations and Systems.